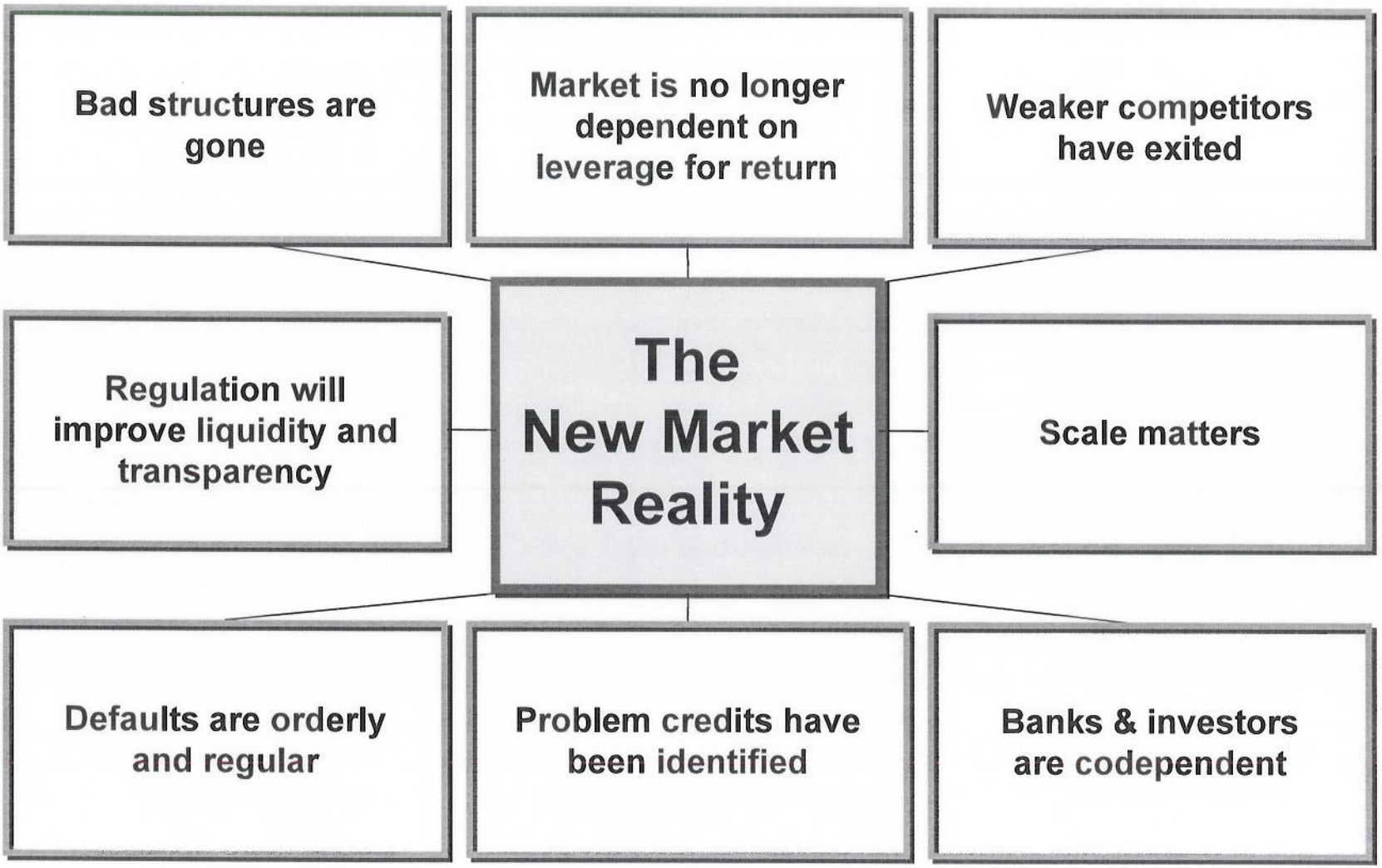
Altered Landscape



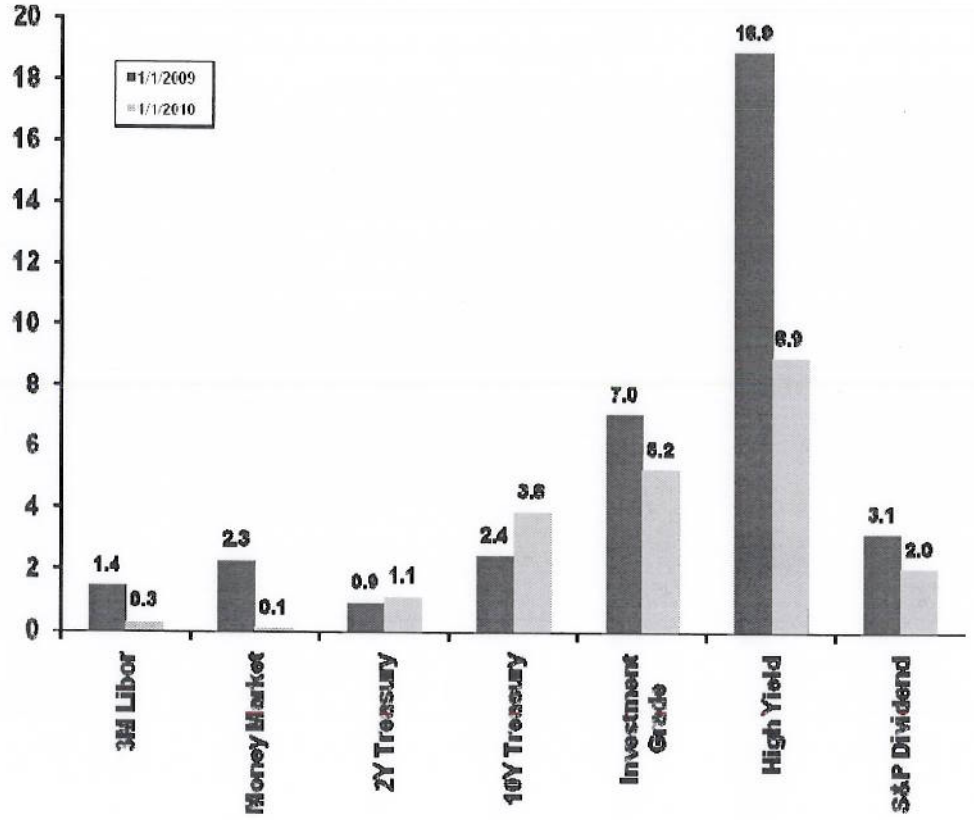
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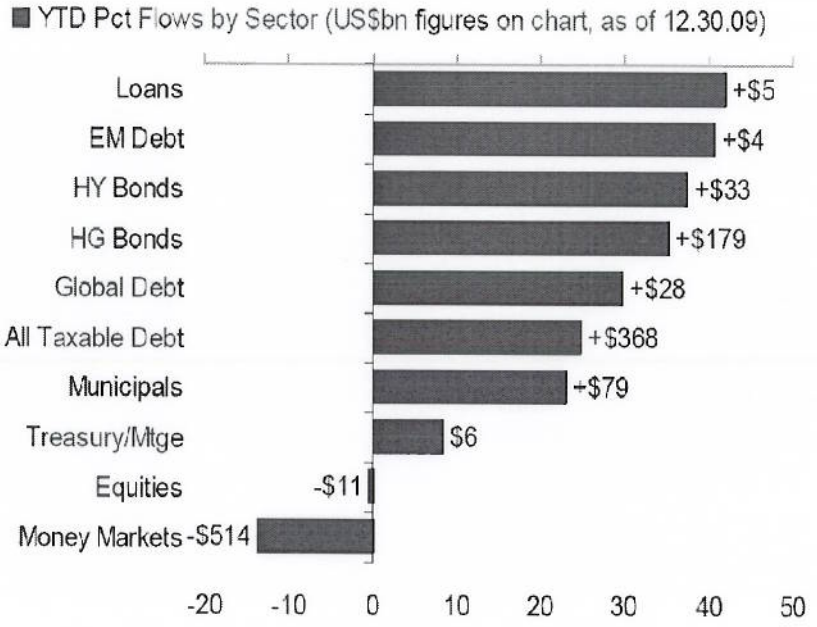
Market Opportunities
Yields Then and Now

As short term rates were driven to zero by the Fed and income yields collapsed, money flowed back into risky assets.

Yields across asset classes



Fund Flows



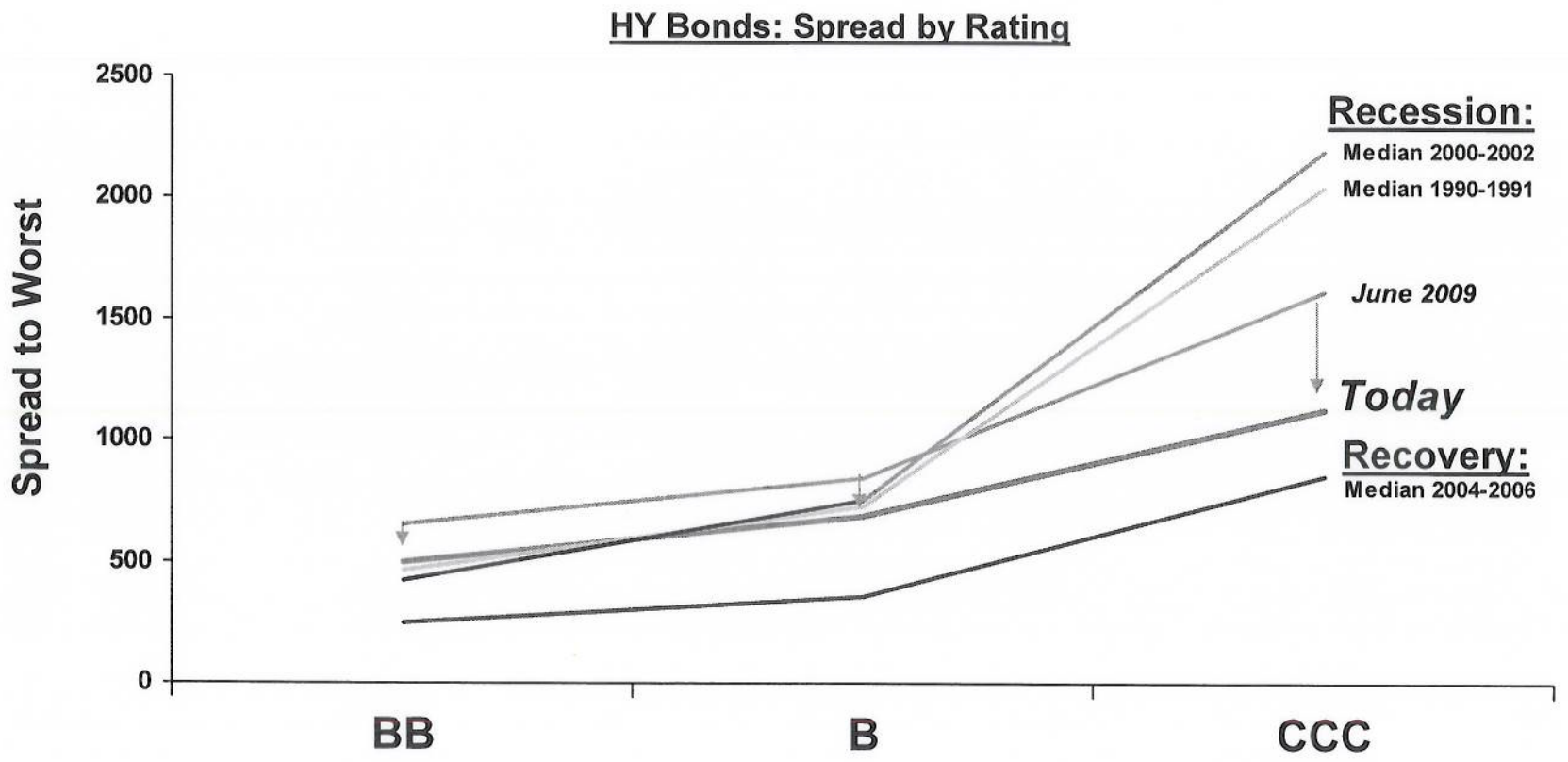
Source: Bloomberg, CAP IQ, JPMorgan, AMG. Money Market is Vanguard Prime Money Market Fund.

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Relative Value in High Yield Bonds

BB and B high yield bond spreads are back out at recessionary levels, while CCCs remain tight.



Source: JPMorgan, Credit Suisse.
Spreads as of 2/11/09.

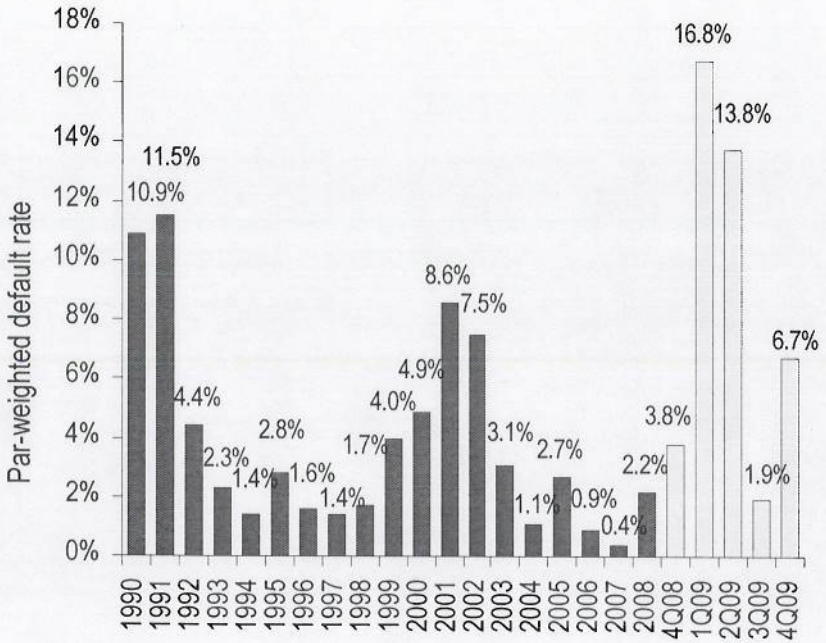
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Default Rates have Fallen off Dramatically

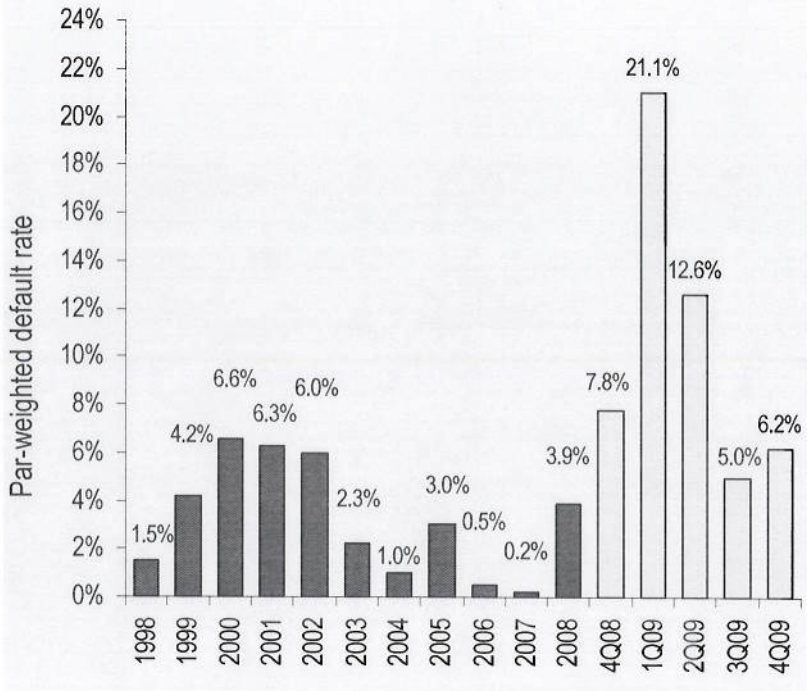
Key to the credit rally is the dramatic slowdown in defaults after the 1st half of 2009.

HY default rates (past 4 quarters annualized)



Source: J.P. Morgan

Loan default rates (past 4 quarters annualized)



Sources: J.P. Morgan; S&P/LCD

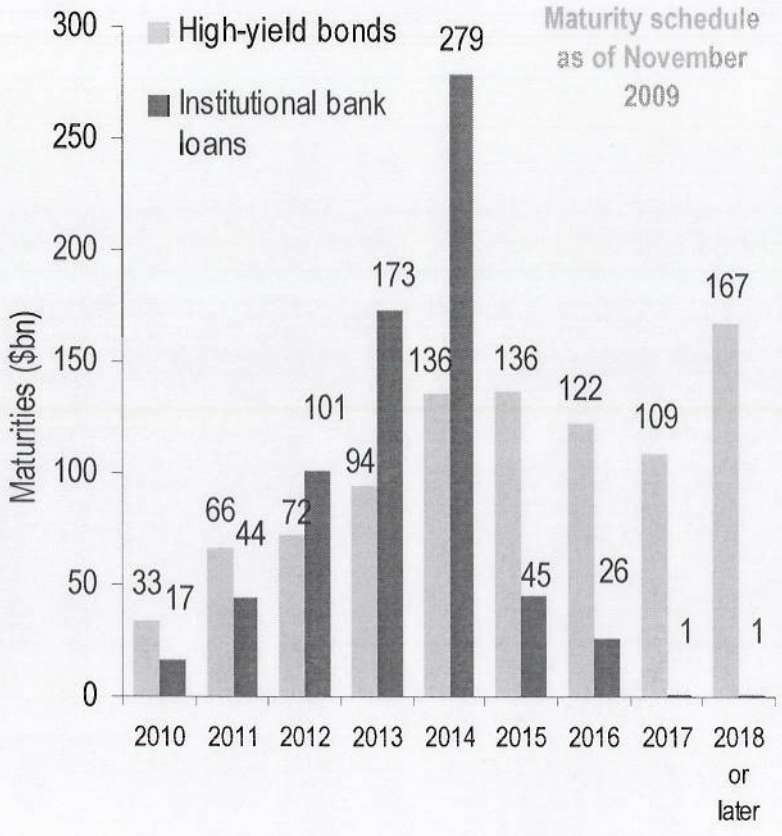
Data as of 12/31/09.

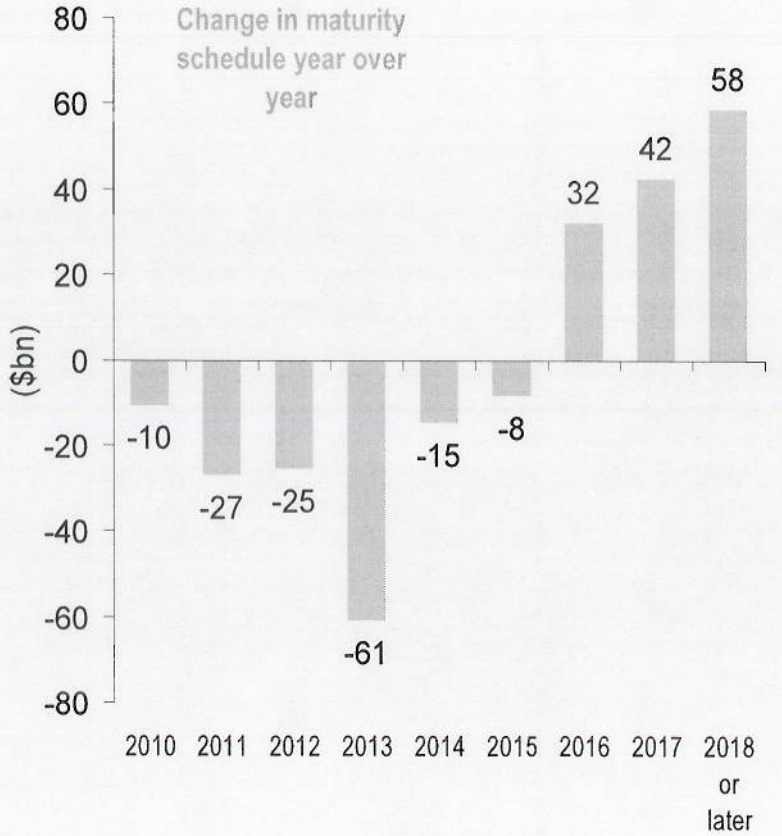
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High Yield and Leveraged Loan Maturity Profile

Maturity schedule jumps between 2012 and 2014





Refinancing risk will be the key issue for many high yield companies

Note: Maturity schedule as of November 18, 2009. Maturity schedule. changes between December 31, 2008 and November 18, 2009.
Source: JPMorgan, Markit.

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Market Opportunities

Thoughts on Credit Technicals

- *There have been significant inflows into credit driven by:*
 - Rates at zero
 - High current yields vs. near term upside in equities
 - Institutional investors expanding their risk mandate
- *We expect technicals to remain strong through Q1 2010:*
 - More money coming into the space
 - Meager net new issuance
 - LBO market still mostly closed
 - Leverage (TRSs) returning to the market
- *Risks to the technical rally:*
 - Rising rates
 - Deterioration in fundamentals
 - Opportunistic money departing
 - Corporate M&A creating real new supply

High-yield bonds	2009
Gross new issuance	**180.7**
Calls	-21.5
Tenders	-35.9
Maturities	-36.8
Net new issuance	**86.5**
Mutual fund flows	-31.1
Coupon reinvestment	-68.8
Net HY supply	**-13.4**

Sources: JP Morgan, Standard & Poor's LCD, AMG Data Services

Leverage loans	2009
Gross new issuance	**38.0**
Paydowns	-41.8
HY take-outs	-48.6
Net new issuance	**-52.4**
Mutual fund flows	-3.4
Net loan supply	**-55.8**

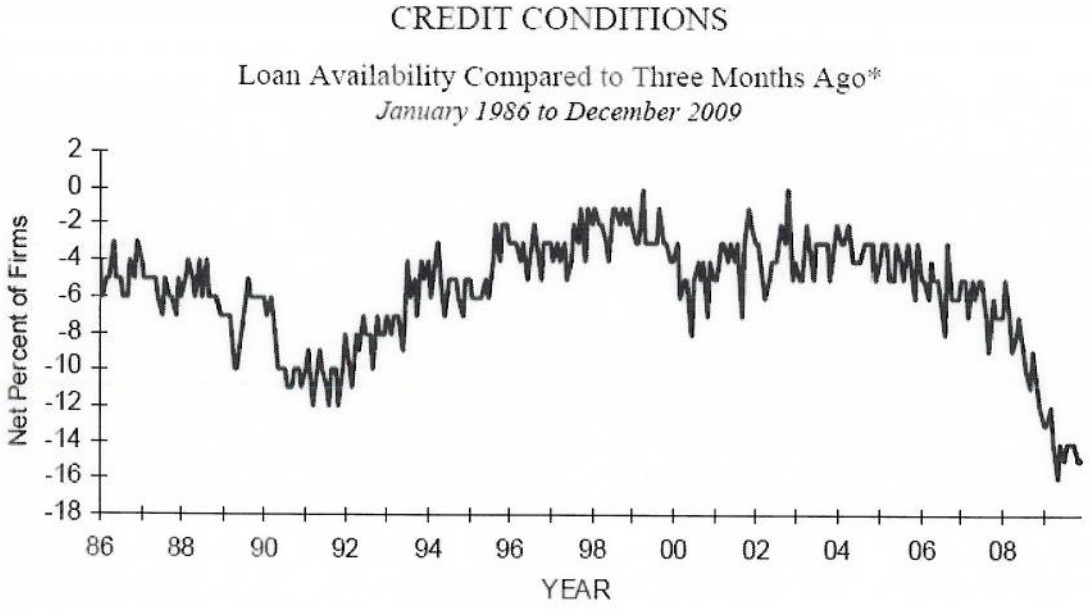
Data as of 12/31/09.
Sources: JPMorgan; Standard & Poor's LCD; AMG Data Services.

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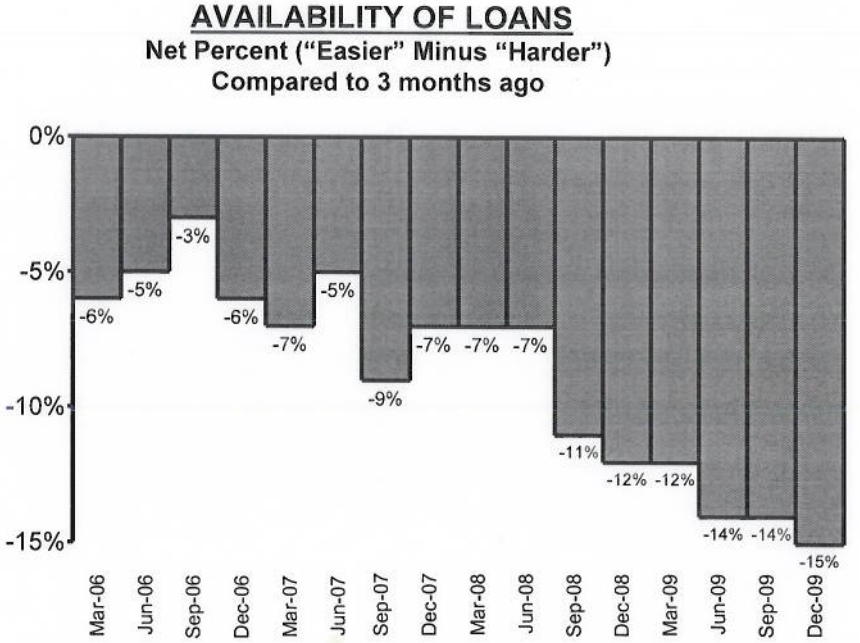
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Market Opportunities
Middle Market Conditions

While the credit markets for larger lenders have re-opened, conditions have gotten worse for small businesses



* For the population borrowing at least once every three months.



The National Federation of Independent Businesses surveys small businesses monthly on business conditions including sales expectations, pricing, credit conditions, hiring, and inventory and CAPEX planning. Over 90% of the businesses surveyed have less than 40 employees

Source: NFIB January 2010 report

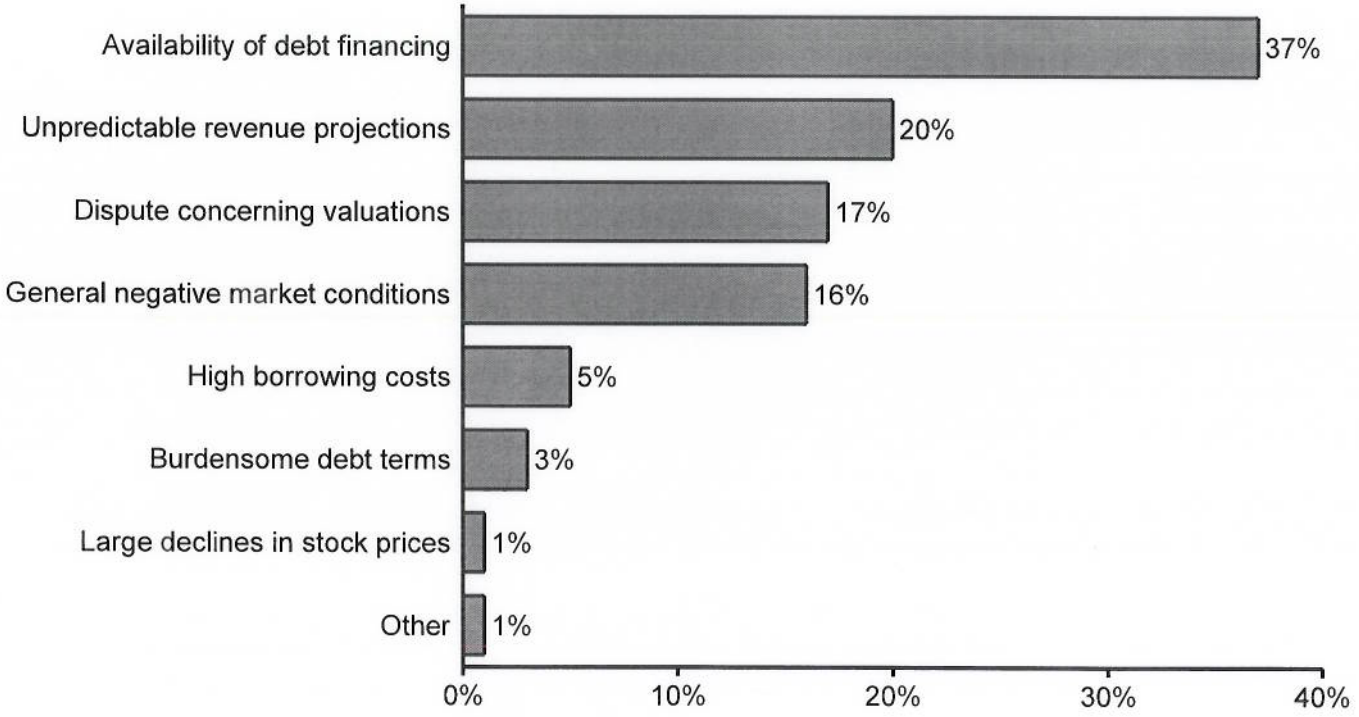
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Debt financing remains the key challenge to make deals in this economic environment

M&A Market Survey 2010

What single factor do you believe will make it hardest for deals to be completed in 2010?



"Readying for Resurgence" The Annual M&A Outlook Survey is a yearly KPMG survey of 360 M&A professionals including public and private companies and private equity funds.

Source: KPMG LLP and The Deal LLC Annual M&A Survey 2010

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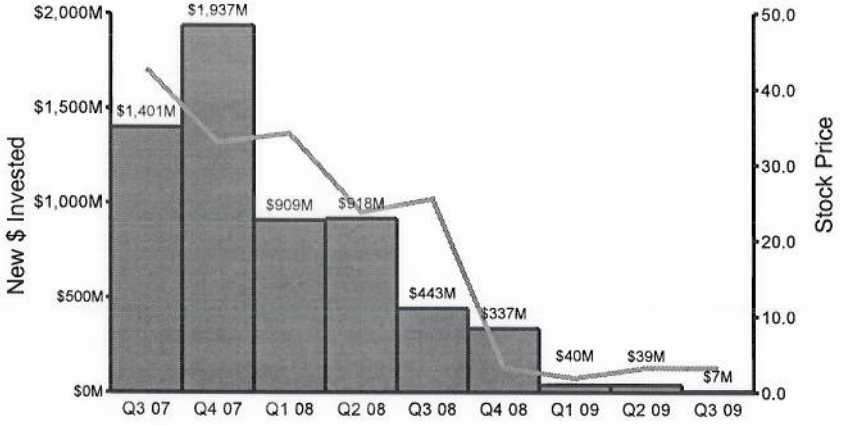
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Middle Market Conditions

Major players have suspended new lending and shrunk their balance sheets in response to the crisis

American Capital

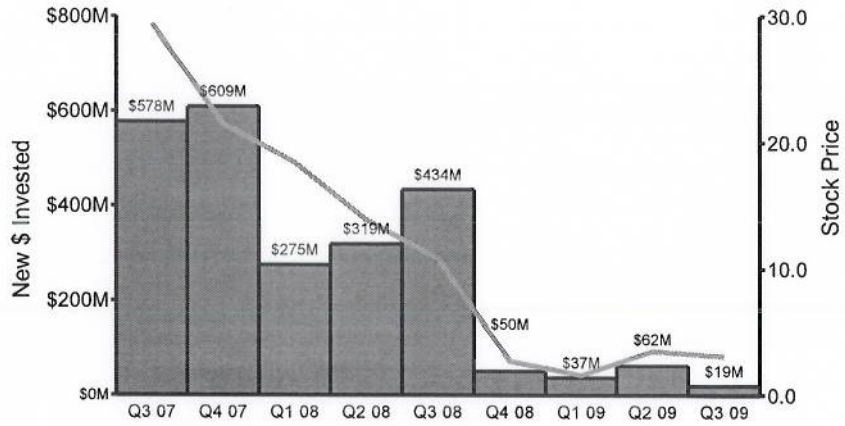
(ACAS)



	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09
BV of Assets ($Bn)	10.8	11.5	10.9	11.2	11.5	11.2	11.1	10.7	10.6
Mark	106%	95%	94%	94%	85%	71%	65%	62%	63%

Allied Capital[1]

(ALD)



	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09
BV of Assets ($Bn)	5.2	5.1	5.1	5.1	5.2	5.0	4.7	4.3	4.6
Mark	93%	93%	91%	88%	80%	70%	61%	59%	62%

- **GE Capital**, the parent of mid-market lender GE–Antares, is reportedly aiming to reduce the size of its balance sheet by 25%, leaving a question mark around how active the lender will be in the 2010 LBO arena.

- **CIT Group**, another historically significant source of LBO financing, also remains a question. The troubled lender, which emerged from bankruptcy on Dec. 10th, is also rumored to be paring down its balance sheet.

Source: SEC filings, Company presentations, www.capitaliq.com, Buyouts – Jan. 4th, 2010

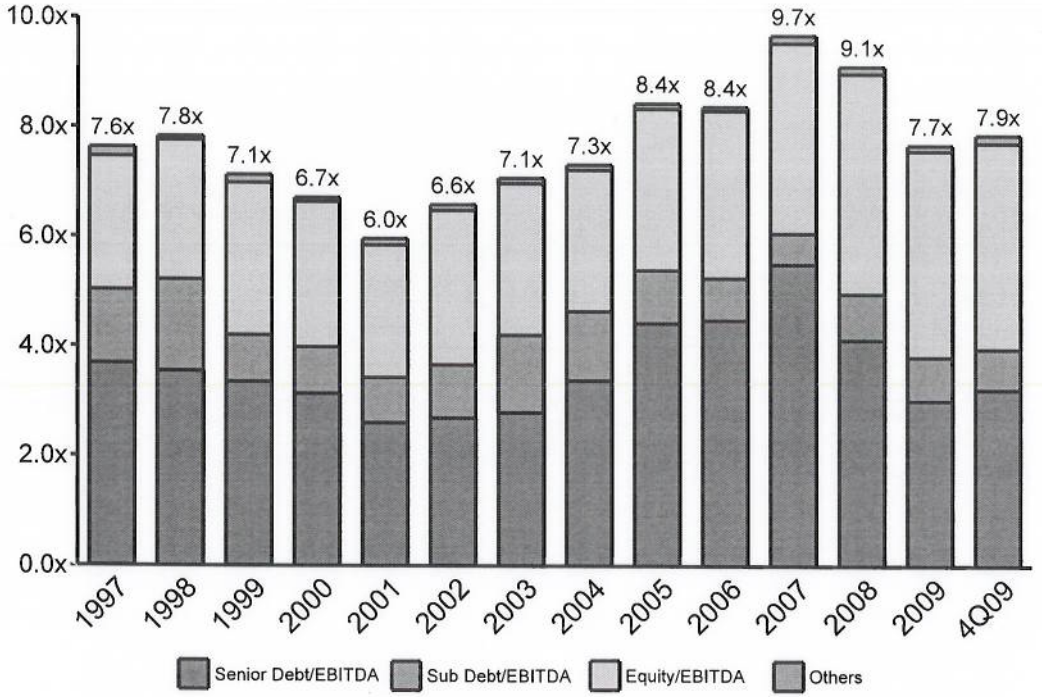
(1) Allied Capital is to be purchased by Ares Capital for $648M in stock pending shareholder meeting on March 26th, 2010

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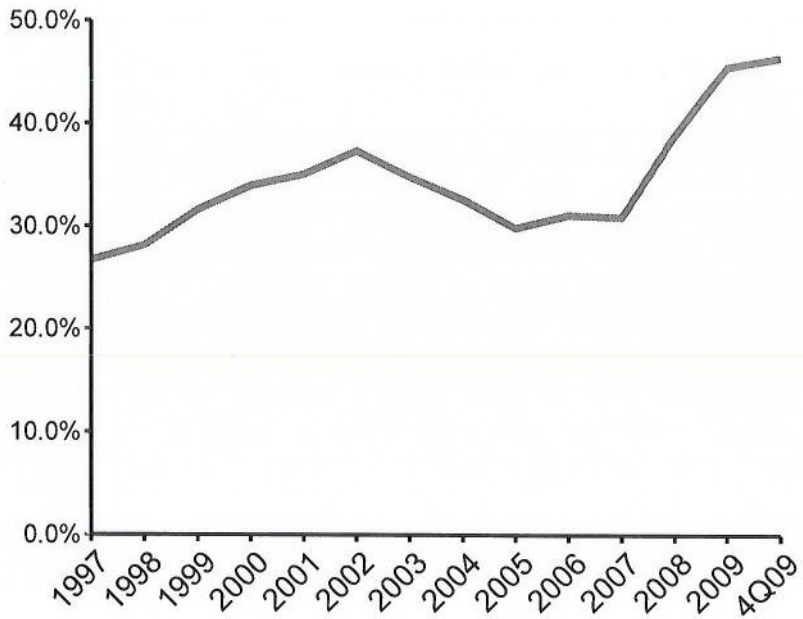
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Equity checks are representing a larger percentage of the cap structure

Purchase Price Breakdown[1]



Equity Contribution



New sub debt investments are less levered and should outperform private equity on a risk-adjusted basis given the larger check size

Source: S&P LCD 4Q09 LBO report

(1) Prior to 2003 Media, Telecom, Energy and Utility Deals, were excluded. Now all outliers, regardless of the industry, are excluded.

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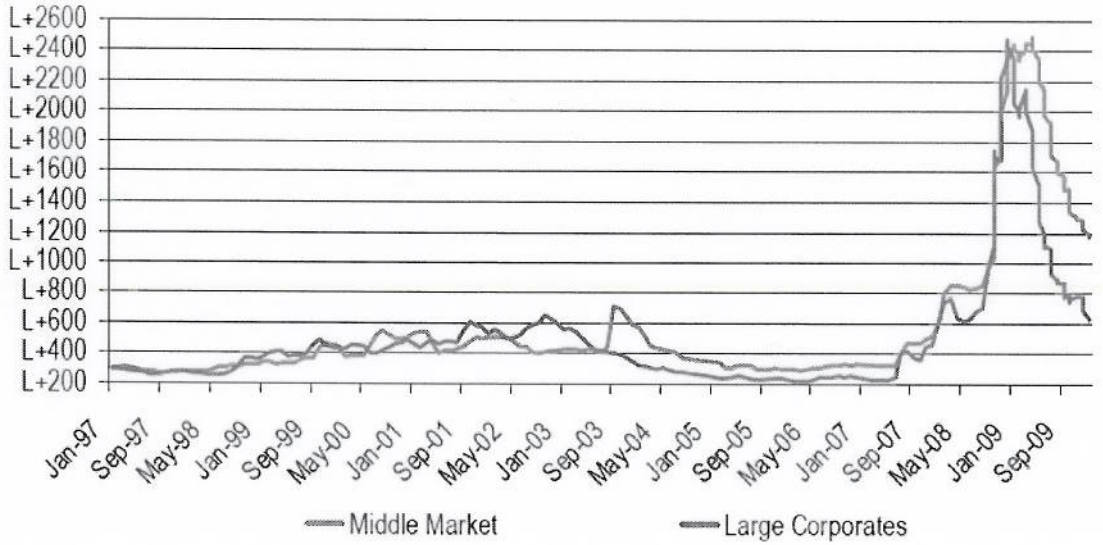
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Middle Market Conditions

The Middle Market provides a unique opportunity to gain outsized returns at lower leverage levels

Average discounted spread of leveraged loans

Assumes discount from par is amortized evenly over a three-year life



Middle Market Credit Stats

	Jan 2009	Dec 2009
Middle Market ($50M of EBITDA or less)		
Leverage through 1st Lien	3.3x	3.2x
Leverage through 2nd Lien	3.3x	3.2x
Senior Debt/EBITDA	3.3x	3.2x
Debt/EBITDA	4.1x	3.7x
LBO Middle Market ($50M of EBITDA or less)		
Leverage through 1st Lien	3.3x	3.1x
Leverage through 2nd Lien	3.3x	3.1x
Senior Debt/EBITDA	3.3x	3.1x
Debt/EBITDA	4.4x	3.4x

Source: S&P LCD Weekly Wrap report, S&P LCD and S&P /LSTA Leveraged Loan Index

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AUM Updates for ADV
12/17/10

	AUM Calculated as of 6/30/08	AUM Calculated as of 9/30/08	AUM Calculated as of 12/31/08[6,7]	AUM Calculated as of 3/31/09[9]	AUM Calculated as of 6/30/09[11]	AUM Calculated as of 9/30/09[13]	AUM Calculated as of 12/31/09[15]	AUM Calculated as of 03/31/10[17]	AUM Calculated as of 06/30/10[20]	AUM Calculated as of 09/30/10[23]
Sankaty	$33,175,000,000 [3]	$30,884,000,000 [4]	$19,804,000,000 [8]	$18,343,000,000 [10]	$18,898,000,000 [12]	$20,338,000,000 [14]	$20,220,000,000 [16]	$20,826,000,000 [18]	$20,066,000,000 [21]	$19,061,000,000 [24]
Brookside	$10,379,000,000 [3]	$9,437,000,000 [4]	$8,815,000,000 [8]	$8,978,000,000 [10]	$10,144,000,000 [12]	$10,624,000,000 [14]	$11,219,000,000 [16]	$11,556,000,000 [18]	$10,386,000,000 [21]	$10,554,000,000 [24]
BCP[1]	$36,895,000,000 [3]	$33,000,000,000 [5]	$28,887,000,000 [8]	$28,119,000,000 [10]	$27,829,000,000 [12]	$29,521,000,000 [14]	$31,104,000,000 [16]	$31,864,000,000 [19]	$30,992,000,000 [22]	$32,410,000,000 [24]
ARC	$754,000,000 [3]	$614,000,000 [4]	$453,000,000 [8]	$560,000,000 [10]	$564,000,000 [12]	$576,000,000 [14]	$597,000,000 [16]	$677,000,000 [18]	$723,000,000 [21]	$799,000,000 [24]
Venture	$1,060,000,000 [3]	$1,085,000,000 [5]	$1,433,000,000 [8]	$1,418,000,000 [10]	$1,419,000,000 [12]	$1,467,000,000 [14]	$1,501,000,000 [16]	$1,503,000,000 [19]	$1,353,000,000 [22]	$1,400,000,000 [24]
Totals	$82,263,000,000	$75,020,000,000	$59,392,000,000	$57,418,000,000	$58,854,000,000	$62,526,000,000	$64,641,000,000	$66,426,000,000	$63,520,000,000	$64,224,000,000

[1] BCP reports Global AUM (includes NAPE, Europe & Asia)

[2] ADV Dated 4/1/08

[3] ADV Dated 8/28/08

[4] ADV Dated 10/30/08

[5] ADV for BCP & Venture dated 12/8/08

[6] Brookside AUM calculated as of 1/2/09

[7] Venture AUM calculated as of 2/6/09

[8] ADV Dated 4/7/09

[9] Brookside AUM calculated as of 4/30/09

[10] ADV Dated 5/29/09

[11] AUM for Brookside calculated as NAV at 6/30/09 plus 7/1/09 client fund contributions

[12] ADV Dated 8/18/09

[13] AUM for Brookside calculated as NAV at 9/30/09 plus 10/1/09 client fund contributions

[14] ADV Dated 11/24/09

[15] AUM for Brookside calculated as NAV at 12/31/09 plus 01/01/10 client fund contributions

[16] ADV Dated 4/5/10

[17] AUM for Brookside and ARC calculated as NAV at 03/31/10 plus 04/01/10 client fund contributions

[18] ADV Dated 5/7/10

[19] Updated ADV for BCP and Venture Dated 6/28/10 [BCP AUM on 5/7/10 ADV: $31,862,000,000; Venture AUM on 5/7/10 ADV: $1,500,000,000]

[20] AUM calculated as of 6/30/2010; ARC AUM calculated as of 6/30/10 plus 7/1/10 contributions

[21] ADV Dated 7/13/10

[22] ADV for BCP and Venture Dated 8/19/10

[23] AUM for Brookside includes 10/01/10 client fund contributions and ARC AUM calculated as of 10/31/10 and includes 11/01/10 client fund contributions.

[24] ADV Dated 12/17/10